

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended.

| | | | |
|---|----------------------------------|---|-------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name VILLAGE OF PENTWATER | County OCEANA |
| Audit Date 3/31/06 | Companion Date 6/22/06 | Date Accountant Report Submitted to State 8/11/06 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

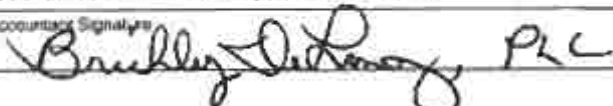
We further affirm the following: "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1988, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements, (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASL GU). | | | ✓ |

| | | | |
|---|-------------------------|------------------------|---------------------|
| Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC | | | |
| Street Address 500 TERRACE PLAZA, P.O. BOX 999 | City MUSKEGON | State MI | ZIP 49443 |
| Accountant Signature  | | Date 8/11/06 | |

Village of Pentwater
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Village of Pentwater
LIST OF ELECTED AND APPOINTED OFFICIALS
March 31, 2006

ELECTED OFFICIALS

Village Council President Juanita Pierman

Village Council..... Alvin Docter
Marilyn Sullivan
Jared Griffis
James Alfredson
Don Palmer
Jay Bryan

APPOINTED OFFICIALS

Village Manager Tim Taylor

Village Clerk/Treasurer Frances A. Tomczak

Deputy Village Clerk/Treasurer Cynthia Maguire

Village Accountant Dan McDonald

Village of Pentwater

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Village of Pentwater

Management's Discussion and Analysis

As management of the Village of Pentwater, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village of Pentwater for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year the Village of Pentwater had total assets of \$5,810,516 and total liabilities of \$1,533,902 leaving net assets of \$4,276,614, an increase of 1.6% in the Village's overall net assets.
- Of the total \$4,276,614 in net assets, the Village may use \$1,643,876 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$1,780,287, made up of governmental revenues of \$1,230,633 and business-type revenues of \$549,654.
- Total expenses for all of the Village's programs were \$1,712,675. Of that total, the governmental expenses were \$1,105,721 and the business-type expenses were \$606,954.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets presents information of all the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the Village include the water, sewer and marina services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Fire Fund, which are considered to be major funds.

Proprietary Funds. The Village of Pentwater has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer and marina operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water, Sewer and Marina funds, all of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Village's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund and Fire Fund.

Government-wide Financial Analysis

The first table presented on the next page is a summary of the government-wide Statement of Net Assets for the Village of Pentwater. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Village's net assets from governmental activities totaled \$1,494,191 (35%) and \$2,782,423 (65%) from business-type activities, creating a total government-wide net assets total of \$4,276,614.

In examining composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, furniture, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$937,568. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,782,423 in net assets and \$706,308 (25%) in unrestricted net assets. The Sewer Fund, Water Fund and Marina Fund unrestricted net assets (deficits) are \$586,620, \$167,750 and (\$48,062), respectively.

Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current assets and other assets | \$ 1,491,243 | \$ 1,402,140 | \$ 970,017 | \$ 1,114,561 | \$ 2,461,260 | \$ 2,516,701 |
| Capital assets | 1,006,008 | 1,050,808 | 2,343,248 | 2,284,788 | 3,349,256 | 3,335,596 |
| Total assets | 2,497,251 | 2,452,948 | 3,313,265 | 3,399,349 | 5,810,516 | 5,852,297 |
| Current liabilities | 242,098 | 267,891 | 122,882 | 158,626 | 364,980 | 426,517 |
| Noncurrent liabilities | 760,962 | 815,778 | 407,960 | 401,000 | 1,168,922 | 1,216,778 |
| Total liabilities | 1,003,060 | 1,083,669 | 530,842 | 559,626 | 1,533,902 | 1,643,295 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 221,008 | 230,808 | 1,913,248 | 1,829,788 | 2,134,256 | 2,060,596 |
| Restricted | 335,615 | 327,352 | 162,867 | 159,003 | 498,482 | 486,355 |
| Unrestricted | 937,568 | 811,119 | 706,308 | 850,932 | 1,643,876 | 1,662,051 |
| Total net assets | \$ 1,494,191 | \$ 1,369,279 | \$ 2,782,423 | \$ 2,839,723 | \$ 4,276,614 | \$ 4,209,002 |

Capital assets decreased for governmental activities primarily because the Village had capital additions of \$25,780 and depreciation of \$70,580. This resulted in a decrease in invested in capital assets, net of related debt category of net assets. Capital assets increased for business-type activities because the Village had capital additions of \$175,200, depreciation of \$113,740 and reduction of construction in progress of \$3,000. This resulted in an increase in invested in capital assets, net of related debt category of net assets. The business-type activities capital asset additions were paid with current resources and therefore reduced the current assets of the business-type activities.

Governmental activities

Governmental activities increased by \$124,912 (9%) during the 2006 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Revenues and expenditures of governmental activities were fairly consistent for most categories. Property tax revenue is up to do growth in taxable values. Unrestricted investment earnings are up because interest rates have increased. Public safety expenses are down because the police department's wages for full-time officers decreased.

Business-type activities

At the end of the fiscal year the net assets for business-type activities decreased by \$57,300 or 2%. Three funds comprise the business-type activities. The Sewer Fund experienced a decrease in net assets for the year totaling \$27,974. The Water Fund experienced a decrease in net assets for the year totaling \$12,500 and the Marina Fund had a decrease in net assets of \$16,826.

Revenues and expenditures of business-type activities were fairly consistent for most categories. Water and Sewer expenses were higher due to increased professional service expenses related to the water and sewer systems.

Change in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|------------|-----------------------------|------------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 245,317 | \$ 225,887 | \$ 524,409 | \$ 507,194 | \$ 769,726 | \$ 733,081 |
| Operating grants | 118,779 | 122,647 | - | - | 118,779 | 122,647 |
| Capital grants and contributions | - | 9,311 | - | 3,226 | - | 12,537 |
| General revenues | | | | | | |
| Property taxes | 723,162 | 674,084 | - | - | 723,162 | 674,084 |
| Grants and contributions not restricted | 79,351 | 90,284 | - | - | 79,351 | 90,284 |
| Unrestricted investment earnings | 40,121 | 24,005 | 25,245 | 15,856 | 65,366 | 39,861 |
| Miscellaneous | 23,903 | 23,746 | - | - | 23,903 | 23,746 |
| Gain on sale of assets | - | 700 | - | - | - | 700 |
| Total revenues | 1,230,633 | 1,170,664 | 549,654 | 526,276 | 1,780,287 | 1,696,940 |

Management's Discussion and Analysis

| | Governmental | | Business-type | | Total | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Activities | | Activities | | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Expenses: | | | | | | |
| General government | \$ 250,873 | \$ 213,762 | \$ - | \$ - | \$ 250,873 | \$ 213,762 |
| Public safety | 356,286 | 393,513 | - | - | 356,286 | 393,513 |
| Public works | 355,363 | 322,535 | - | - | 355,363 | 322,535 |
| Community and economic development | 19,011 | 18,674 | - | - | 19,011 | 18,674 |
| Culture and recreation | 76,471 | 59,675 | - | - | 76,471 | 59,675 |
| Interest on long-term debt | 47,717 | 49,814 | - | - | 47,717 | 49,814 |
| Sewer Fund | - | - | 282,861 | 221,533 | 282,861 | 221,533 |
| Water Fund | - | - | 196,788 | 146,559 | 196,788 | 146,559 |
| Marina Fund | - | - | 127,305 | 118,587 | 127,305 | 118,587 |
| Total expenses | <u>1,105,721</u> | <u>1,057,973</u> | <u>606,954</u> | <u>486,679</u> | <u>1,712,675</u> | <u>1,544,652</u> |
| Change in net assets before transfers | 124,912 | 112,691 | (57,300) | 39,597 | 67,612 | 152,288 |
| Transfers | - | (40,000) | - | 40,000 | - | - |
| Change in net assets | 124,912 | 72,691 | (57,300) | 79,597 | 67,612 | 152,288 |
| Net assets - Beginning | <u>1,369,279</u> | <u>1,296,588</u> | <u>2,839,723</u> | <u>2,760,126</u> | <u>4,209,002</u> | <u>4,056,714</u> |
| Net assets - Ending | <u>\$ 1,494,191</u> | <u>\$ 1,369,279</u> | <u>\$ 2,782,423</u> | <u>\$ 2,839,723</u> | <u>\$ 4,276,614</u> | <u>\$ 4,209,002</u> |

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$1,065,622. This number represents the unreserved fund balance of \$621,058 in the General Fund, \$104,084 in the Fire Fund and \$340,480 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance of \$148,702 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$31,904, advances of \$49,789, and debt service of \$67,009. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,214,324, which consists of a fund balance of \$693,976 in the General Fund, \$110,485 in the Fire Fund and \$409,863 in other governmental funds.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year 2006, the unreserved General Fund fund balance was \$621,058 and the total General Fund fund balance was \$693,976. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 82% of the General Fund expenditures.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Unrestricted net assets in the Sewer, Water and Marina Funds decreased by \$27,974, \$12,500 and \$16,826, respectively. The result was an overall net decrease in the proprietary funds of \$57,300.

General Fund Budget

During the current fiscal year, the Village made several amendments to its original budget. The most significant of those is listed below:

- The original Council budget was increased by \$16,300 because the Village Council purchased new chairs for the Council table, there was an increase in legal expenses, and there was an increase in publishing expense for publishing legal notices in the local paper.
- The original DPW budget was increased by \$25,471 because the Village purchased upgraded safety equipment required by the State of Michigan, purchased street brooms, new uniforms for the employees, hired a contractor to assist in storm damage clean-up from the storm of July 2005, utility costs for the DPW barn were higher than anticipated, and the Village rented a compost grinder from the City of Hart.
- The original parks budget was increased by \$15,100 because the Village used a contracted custodial service for cleaning and minor maintenance of park buildings, and the utility cost was higher than anticipated.

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

- Investment earnings revenue was \$12,649 above the budgeted amount because interest rates were higher than anticipated.
- Council expenditures was \$9,684 less than budgeted because legal expenses, lake board assessment, property, liability and workers' compensation insurance premiums were all lower than anticipated. Also, the Council did not attend as many educational seminars, which also led to lower travel, meals and lodging expenses.
- Clerk expenditures was \$6,497 less than budgeted because health insurance premiums, retirement, utilities, phone lease/maintenance, equipment repairs and postage were all lower than anticipated. Education and training expenses were also lower than expected which resulted in lower travel, meals and lodging expenses.
- Police department expenditures was \$58,570 less than budgeted because the Village did not hire a new police chief until August 2005, and he was hired at a lower salary than the former police chief. In addition, the sergeant position was eliminated and was replaced by a patrolman in the 2006/2007 fiscal year. This has resulted in lower payroll expenses, health insurance and retirement expenses. Utility expenses were also lower than anticipated.
- DPW expenditures was \$14,404 less than budgeted because payroll expenses, health insurance, retirement, operating supplies (except for safety equipment), repairs and maintenance and equipment rental were all lower than anticipated.
- Sanitation expenditures was \$5,828 more than budgeted because a surcharge was added by Allied Waste in order to cover increased fuel costs.

- Planning commission expenditures was \$6,988 less than budgeted because professional, contractual, publishing, education and travel expenses were all lower than anticipated.
- Parks expenditures was \$6,703 less than budgeted because payroll expenses, retirement and repair and maintenance expenses were all lower than anticipated.
- Capital outlay expenditures was \$7,171 more than budgeted because the Village purchased new doors at the police department and new flooring at the DPW building.

Capital Asset Administration

The Village of Pentwater's investment in capital assets for its governmental and business-type activities as of March 31, 2006 totaled \$3,349,256 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture, vehicles and equipment.

Major capital asset events during the current fiscal year included the following:

- The Village purchased new doors at the police station for \$5,035.
- The Village purchased new flooring at the DPW building for \$2,536.
- The Village purchased a new electrical system for the Water Fund's wells for \$6,577.
- The Village constructed the arsenic building in the Water Fund for \$141,308.
- The Village purchased a DDP police science program for \$2,600.
- The Village paved Third Street for \$15,609.
- The Village paid for some engineering at the Lites' Woods subdivision for \$7,957 in the Sewer Fund and \$7,957 in the Water Fund.
- The Village had a drinking water revolving project plan done for \$11,401.

Capital Assets (Net of Accumulated Depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 34,699 | \$ 34,699 | \$ 254,190 | \$ 254,190 | \$ 288,889 | \$ 288,889 |
| Land improvements | 35,066 | 37,318 | - | - | 35,066 | 37,318 |
| Buildings and improvements | 363,911 | 372,117 | - | - | 363,911 | 372,117 |
| Equipment | 557,016 | 606,674 | - | - | 557,016 | 606,674 |
| Infrastructure | 15,316 | - | - | - | 15,316 | - |
| Sewer system | - | - | 1,585,499 | 1,646,378 | 1,585,499 | 1,646,378 |
| Water system | - | - | 365,655 | 230,068 | 365,655 | 230,068 |
| Marina | - | - | 137,904 | 154,152 | 137,904 | 154,152 |
| Total | <u>\$ 1,006,008</u> | <u>\$ 1,050,808</u> | <u>\$ 2,343,248</u> | <u>\$ 2,284,788</u> | <u>\$ 3,349,256</u> | <u>\$ 3,335,596</u> |

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Village of Pentwater

Management's Discussion and Analysis

Long-Term Debt

At the end of the 2006 fiscal year, the Village of Pentwater had total outstanding debt of \$1,236,404 consisting of general obligation bonds, revenue bonds and compensated absences. The general obligation debt of \$785,000 is backed by the full-faith and credit of the Village. The revenue bonds of \$430,000 are anticipated to be repaid through the revenues generated from the Sewer Fund.

Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|-------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue bonds | \$ - | \$ - | \$ 430,000 | \$ 455,000 | \$ 430,000 | \$ 455,000 |
| General obligation bonds | 785,000 | 820,000 | - | - | 785,000 | 820,000 |
| Compensated absences | 21,404 | 30,778 | - | - | 21,404 | 30,778 |
| Total | <u>\$ 806,404</u> | <u>\$ 850,778</u> | <u>\$ 430,000</u> | <u>\$ 455,000</u> | <u>\$ 1,236,404</u> | <u>\$ 1,305,778</u> |

The Village's total debt decreased by \$69,374 during the fiscal year. This decrease was due to the normal debt payoffs as provided for in the fiscal year 2006 budget.

Additional information on the Village's long-term debt can be found in Note G of the "Notes to Financial Statements" of this report.

General Economic Overview

The Village of Pentwater has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Village's General Fund has three major revenue sources – state revenue sharing, property tax revenue and garbage collection fees. These three sources comprised over 93% of the General Fund revenue sources. In fiscal 2007, state revenue sharing is expected to remain stagnant or possibly decrease. This is dependent on the financing situation at the State of Michigan. Property tax revenues are expected to increase as the new construction in the Village begins to be placed on the tax rolls. Garbage collection fees are expected to remain the same unless the garbage collection company imposes a fuel surcharge forcing the Village to raise rates to cover the additional expenses.

Expenditures are expected increase due to contract settlements with the DPW department and police department patrolmen. Insurance premiums are also expected to increase as well as repair and maintenance expenses because of the aging Village buildings and parks. In addition, the Village is anticipating the overall cost of living increases to affect all expenses.

Requests for Information

This financial report is designed to provide a general overview of the Village of Pentwater's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Pentwater, 327 South Hancock Street, Pentwater, MI 49449, (231) 869-8301.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 22, 2006

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, Michigan, as of and for the year ended March 31, 2006 which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pentwater, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, Michigan, as of March 31, 2006 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2006, on our consideration of the Village of Pentwater, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Village Manager and Members
of the Village Council
June 22, 2006
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - viii and 28 - 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Pentwater, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Village of Pentwater
STATEMENT OF NET ASSETS
March 31, 2006

ASSETS

| | Governmental activities | Business-type activities | Total |
|---|----------------------------|-----------------------------|--------------|
| CURRENT ASSETS | | | |
| Cash and investments | \$ 1,305,014 | \$ 731,705 | \$ 2,036,719 |
| Receivables | 20,825 | 90,767 | 111,592 |
| Due from other governmental units | 73,703 | - | 73,703 |
| Internal balances | 51,771 | (51,771) | - |
| Inventories | - | 24,263 | 24,263 |
| Prepaid items | 39,930 | 12,186 | 52,116 |
| Total current assets | 1,491,243 | 807,150 | 2,298,393 |
| NONCURRENT ASSETS | | | |
| Restricted assets | - | 162,867 | 162,867 |
| Capital assets, net | | | |
| Nondepreciable | 34,699 | 254,190 | 288,889 |
| Depreciable | 971,309 | 2,089,058 | 3,060,367 |
| Total noncurrent assets | 1,006,008 | 2,506,115 | 3,512,123 |
| Total assets | 2,497,251 | 3,313,265 | 5,810,516 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 49,645 | 55,120 | 104,765 |
| Deferred revenue | 147,011 | 41,775 | 188,786 |
| Bonds and other obligations, due within one year | 45,442 | 25,987 | 71,429 |
| Total current liabilities | 242,098 | 122,882 | 364,980 |
| NONCURRENT LIABILITIES | | | |
| Bonds and other obligations, less amounts due within one year | 760,962 | 407,960 | 1,168,922 |
| Total liabilities | 1,003,060 | 530,842 | 1,533,902 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 221,008 | 1,913,248 | 2,134,256 |
| Restricted for: | | | |
| Streets and highways | 268,606 | - | 268,606 |
| Debt service | 67,009 | 162,867 | 229,876 |
| Unrestricted | 937,568 | 706,308 | 1,643,876 |
| Total net assets | \$ 1,494,191 | \$ 2,782,423 | \$ 4,276,614 |

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF ACTIVITIES
For the year ended March 31, 2006

| <i>Functions/Programs</i> | Expenses | Program Revenue | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|
| | | Charges for services | Operating grants and contributions | Governmental activities | Business-type activities | Total |
| Governmental activities | | | | | | |
| General government | \$ 250,873 | \$ 16,682 | \$ 10,000 | \$ (224,191) | \$ - | \$ (224,191) |
| Public safety | 356,286 | 137,608 | 422 | (218,256) | - | (218,256) |
| Public works | 355,363 | 81,069 | 108,357 | (165,937) | - | (165,937) |
| Community and economic development | 19,011 | - | - | (19,011) | - | (19,011) |
| Culture and recreation | 76,471 | 9,958 | - | (66,513) | - | (66,513) |
| Interest on long-term debt | 47,717 | - | - | (47,717) | - | (47,717) |
| Total governmental activities | 1,105,721 | 245,317 | 118,779 | (741,625) | - | (741,625) |
| Business-type activities | | | | | | |
| Sewer | 282,861 | 236,255 | - | - | (46,606) | (46,606) |
| Water | 196,788 | 178,606 | - | - | (18,182) | (18,182) |
| Marina | 127,305 | 109,548 | - | - | (17,757) | (17,757) |
| Total business-type activities | 606,954 | 524,409 | - | - | (82,545) | (82,545) |
| Total government | \$ <u>1,712,675</u> | \$ <u>769,726</u> | \$ <u>118,779</u> | (741,625) | (82,545) | (824,170) |
| General revenues | | | | | | |
| Property taxes, levied for: | | | | | | |
| General purposes | | | | 638,093 | - | 638,093 |
| Specific purposes | | | | 85,069 | - | 85,069 |
| Grants and contributions not restricted to specific programs | | | | 79,351 | - | 79,351 |
| Unrestricted investment earnings | | | | 40,121 | 25,245 | 65,366 |
| Miscellaneous | | | | 23,903 | - | 23,903 |
| Total general revenues | | | | 866,537 | 25,245 | 891,782 |
| Change in net assets | | | | 124,912 | (57,300) | 67,612 |
| Net assets at April 1, 2005 | | | | 1,369,279 | 2,839,723 | 4,209,002 |
| Net assets at March 31, 2006 | | | | \$ <u>1,494,191</u> | \$ <u>2,782,423</u> | \$ <u>4,276,614</u> |

The accompanying notes are an integral part of this statement.

Village of Pentwater
BALANCE SHEET
Governmental Funds
March 31, 2006

| | General Fund | Fire Fund | Other governmental funds | Total governmental funds |
|--------------------------------------|-------------------|-------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 582,700 | \$ 240,836 | \$ 392,220 | \$ 1,215,756 |
| Receivables | 20,825 | - | - | 20,825 |
| Due from other governmental units | 44,899 | 8,189 | 20,615 | 73,703 |
| Due from other funds | - | - | 3,204 | 3,204 |
| Prepaid items | 23,129 | 6,401 | 2,374 | 31,904 |
| Advances to other funds | 49,789 | - | - | 49,789 |
| Total assets | <u>\$ 721,342</u> | <u>\$ 255,426</u> | <u>\$ 418,413</u> | <u>\$ 1,395,181</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 19,310 | \$ 1,045 | \$ 416 | \$ 20,771 |
| Accrued liabilities | 4,623 | - | 11 | 4,634 |
| Due to other funds | 423 | - | 7,843 | 8,266 |
| Customer deposits | - | - | 175 | 175 |
| Deferred revenue | 3,010 | 143,896 | 105 | 147,011 |
| Total liabilities | 27,366 | 144,941 | 8,550 | 180,857 |
| Fund balances | | | | |
| Reserved for: | | | | |
| Prepaid items | 23,129 | 6,401 | 2,374 | 31,904 |
| Advances | 49,789 | - | - | 49,789 |
| Debt service | - | - | 67,009 | 67,009 |
| Unreserved | | | | |
| Designated for: | | | | |
| Industrial park | 22,250 | - | - | 22,250 |
| Improvements | - | - | 1,364 | 1,364 |
| Undesignated, reported in | | | | |
| General Fund | 598,808 | - | - | 598,808 |
| Special revenue funds | - | 104,084 | 339,116 | 443,200 |
| Total fund balances | <u>693,976</u> | <u>110,485</u> | <u>409,863</u> | <u>1,214,324</u> |
| Total liabilities and fund balances | <u>\$ 721,342</u> | <u>\$ 255,426</u> | <u>\$ 418,413</u> | <u>\$ 1,395,181</u> |

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 March 31, 2006

| | | |
|---------------------------------------|--|--------------|
| Total fund balance—governmental funds | | \$ 1,214,324 |
|---------------------------------------|--|--------------|

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

| | | |
|--------------------------|------------------|---------|
| Cost of capital assets | \$ 1,536,856 | |
| Accumulated depreciation | <u>(682,808)</u> | 854,048 |

| | |
|--|----------|
| Accrued interest in governmental activities is not reported in the governmental funds. | (23,600) |
|--|----------|

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

| | | |
|----------------------|-----------------|-----------|
| Bonds payable | (785,000) | |
| Compensated absences | <u>(20,261)</u> | (805,261) |

Internal service funds are used by management to charge the costs of equipment used to
individual funds. The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

| | |
|--|----------------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ <u><u>1,494,191</u></u> |
|--|----------------------------|

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2006

| | General Fund | Fire Fund | Other governmental funds | Total governmental funds |
|------------------------------------|-----------------|--------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 585,081 | \$ - | \$ 138,081 | \$ 723,162 |
| Licenses and permits | 10,651 | - | - | 10,651 |
| Intergovernmental revenues - state | 79,773 | - | 118,357 | 198,130 |
| Charges for services | 86,857 | 137,526 | 6,762 | 231,145 |
| Fines and forfeitures | 3,520 | - | - | 3,520 |
| Investment earnings | 21,649 | 5,341 | 10,383 | 37,373 |
| Other | 16,394 | 1,743 | 5,768 | 23,905 |
| Total revenues | 803,925 | 144,610 | 279,351 | 1,227,886 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 204,628 | - | - | 204,628 |
| Public safety | 215,886 | 108,713 | - | 324,599 |
| Public works | 235,916 | - | 116,424 | 352,340 |
| Community and economic development | 18,731 | - | - | 18,731 |
| Culture and recreation | 73,410 | - | - | 73,410 |
| Other governmental functions | - | - | 45,990 | 45,990 |
| Debt service | | | | |
| Principal | - | - | 35,000 | 35,000 |
| Interest and fees | - | - | 48,783 | 48,783 |
| Capital outlay | 10,171 | - | 15,609 | 25,780 |
| Total expenditures | 758,742 | 108,713 | 261,806 | 1,129,261 |
| Net change in fund balances | 45,183 | 35,897 | 17,545 | 98,625 |
| Fund balances at April 1, 2005 | 648,793 | 74,588 | 392,318 | 1,115,699 |
| Fund balances at March 31, 2006 | \$ 693,976 | \$ 110,485 | \$ 409,863 | \$ 1,214,324 |

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended March 31, 2006

| | | |
|--|----|--------|
| Net change in fund balances—total governmental funds | \$ | 98,625 |
|--|----|--------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

| | | |
|----------------------|---------------|----------|
| Depreciation expense | \$ (51,062) | |
| Capital outlay | <u>25,780</u> | (25,282) |

| | | |
|---|--|--------|
| Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | 35,000 |
|---|--|--------|

| | | |
|--|--|-------|
| Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid. | | 1,066 |
|--|--|-------|

| | | |
|--|--|--------|
| Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds. | | 17,008 |
|--|--|--------|

| | | |
|---|--|----------------|
| The internal service fund is used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities. | | <u>(1,505)</u> |
|---|--|----------------|

| | | |
|---|----|-----------------------|
| Change in net assets of governmental activities | \$ | <u><u>124,912</u></u> |
|---|----|-----------------------|

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF NET ASSETS
Proprietary Funds
March 31, 2006

ASSETS

| | Business-type Activities - Enterprise funds | | | | Governmental Activities - Internal service fund |
|---|---|------------|------------|--------------|--|
| | Sewer | Water | Marina | Total | |
| CURRENT ASSETS | | | | | |
| Cash and investments | \$ 574,468 | \$ 117,266 | \$ 39,971 | \$ 731,705 | \$ 89,258 |
| Accounts receivable | 57,674 | 33,093 | - | 90,767 | - |
| Due from other funds | - | - | - | - | 7,044 |
| Inventories | - | 24,263 | - | 24,263 | - |
| Prepaid items | 2,977 | 3,579 | 5,630 | 12,186 | 8,026 |
| Total current assets | 635,119 | 178,201 | 45,601 | 858,921 | 104,328 |
| NONCURRENT ASSETS | | | | | |
| Restricted assets | 162,867 | - | - | 162,867 | - |
| Capital assets | | | | | |
| Land | 2,196 | - | 251,994 | 254,190 | - |
| Plants and systems | 2,629,288 | 779,533 | - | 3,408,821 | - |
| Building and improvements | 250,802 | 224,566 | 147,143 | 622,511 | - |
| Equipment | 46,555 | 35,497 | 160,805 | 242,857 | 440,640 |
| Docks | - | - | 181,004 | 181,004 | - |
| Less accumulated depreciation | (1,341,146) | (673,941) | (351,048) | (2,366,135) | (288,680) |
| Net capital assets | 1,587,695 | 365,655 | 389,898 | 2,343,248 | 151,960 |
| Total noncurrent assets | 1,750,562 | 365,655 | 389,898 | 2,506,115 | 151,960 |
| Total assets | 2,385,681 | 543,856 | 435,499 | 3,365,036 | 256,288 |
| LIABILITIES AND NET ASSETS (DEFICITS) | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 30,657 | 6,931 | 1,543 | 39,131 | 346 |
| Accrued liabilities | 15,181 | 354 | 453 | 15,988 | 120 |
| Due to other funds | 852 | 1,073 | 58 | 1,983 | - |
| Deferred revenue | - | - | 41,775 | 41,775 | - |
| Bonds and other obligations, due within one year | 25,454 | 523 | 10 | 25,987 | 1,142 |
| Total current liabilities | 72,144 | 8,881 | 43,839 | 124,864 | 1,608 |
| NONCURRENT LIABILITIES | | | | | |
| Advances from other funds | - | - | 49,789 | 49,789 | - |
| Bonds and other obligations, less amounts due within one year | 406,355 | 1,570 | 35 | 407,960 | - |
| Total noncurrent liabilities | 406,355 | 1,570 | 49,824 | 457,749 | - |
| Total liabilities | 478,499 | 10,451 | 93,663 | 582,613 | 1,608 |
| NET ASSETS (DEFICITS) | | | | | |
| Invested in capital assets, net of related debt | 1,157,695 | 365,655 | 389,863 | 1,913,213 | 151,960 |
| Restricted for debt service | 162,867 | - | - | 162,867 | - |
| Unrestricted | 586,620 | 167,750 | (48,027) | 706,343 | 102,720 |
| Total net assets | \$ 1,907,182 | \$ 533,405 | \$ 341,836 | \$ 2,782,423 | \$ 254,680 |

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended March 31, 2006

| | Business-type Activities - Enterprise funds | | | | Governmental Activities - Internal service fund |
|---------------------------------------|---|------------|------------|--------------|---|
| | Sewer | Water | Marina | Total | |
| OPERATING REVENUES | | | | | |
| Charges for services | \$ 236,255 | \$ 178,606 | \$ 109,548 | \$ 524,409 | \$ 82,744 |
| OPERATING EXPENSES | | | | | |
| Administration | 48,993 | 78,655 | - | 127,648 | - |
| Operations | 136,026 | 89,478 | 109,154 | 334,658 | 67,368 |
| Depreciation | 68,836 | 28,655 | 16,249 | 113,740 | 19,630 |
| Total operating expenses | 253,855 | 196,788 | 125,403 | 576,046 | 86,998 |
| Operating loss | (17,600) | (18,182) | (15,855) | (51,637) | (4,254) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Investment earnings | 18,632 | 5,682 | 931 | 25,245 | 2,749 |
| Interest expense | (29,006) | - | (1,902) | (30,908) | - |
| Total nonoperating revenue (expenses) | (10,374) | 5,682 | (971) | (5,663) | 2,749 |
| Change in net assets | (27,974) | (12,500) | (16,826) | (57,300) | (1,505) |
| Net assets at April 1, 2005 | 1,935,156 | 545,905 | 358,662 | 2,839,723 | 256,185 |
| Net assets at March 31, 2006 | \$ 1,907,182 | \$ 533,405 | \$ 341,836 | \$ 2,782,423 | \$ 254,680 |

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2006

| | Business-type Activities - Enterprise funds | | | | Governmental Activities - Internal service fund |
|---|---|-------------------|--------------------|-------------------|--|
| | Sewer | Water | Marina | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | \$ 237,195 | \$ 180,075 | \$ 95,813 | \$ 513,083 | \$ - |
| Receipts from interfund services provided | 2,177 | 5,906 | - | 8,083 | 75,700 |
| Payments to suppliers | (138,450) | (96,779) | (52,344) | (287,573) | (54,779) |
| Payments to employees | (50,571) | (67,418) | (59,365) | (177,354) | (21,185) |
| Payment for interfund services used | (9,311) | (6,522) | (2,192) | (18,025) | - |
| Net cash provided by (used for) operating activities | 41,040 | 15,262 | (18,088) | 38,214 | (264) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Advances from other funds (net) | - | - | (2,768) | (2,768) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchases of capital assets | (7,957) | (164,243) | - | (172,200) | - |
| Principal paid on capital debt | (25,000) | - | - | (25,000) | - |
| Interest paid on capital debt | (14,503) | - | (1,902) | (16,405) | - |
| Net cash used for capital and related financing activities | (47,460) | (164,243) | (1,902) | (213,605) | - |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Investment earnings | 18,632 | 5,682 | 931 | 25,245 | 2,749 |
| Net increase (decrease) in cash and investments | 12,212 | (143,299) | (21,827) | (152,914) | 2,485 |
| Cash and investments at April 1, 2005 | 725,123 | 260,565 | 61,798 | 1,047,486 | 86,773 |
| Cash and investments at March 31, 2006 | <u>\$ 737,335</u> | <u>\$ 117,266</u> | <u>\$ 39,971</u> | <u>\$ 894,572</u> | <u>\$ 89,258</u> |
| Reconciliation of cash and investments to the balance sheet | | | | | |
| Cash and investments | \$ 574,468 | \$ 117,266 | \$ 39,971 | \$ 731,705 | \$ 89,258 |
| Restricted assets | 162,867 | - | - | 162,867 | - |
| | <u>\$ 737,335</u> | <u>\$ 117,266</u> | <u>\$ 39,971</u> | <u>\$ 894,572</u> | <u>\$ 89,258</u> |
| Reconciliation of operating loss to net cash provided by (used for) operating activities | | | | | |
| Operating loss | \$ (17,600) | \$ (18,182) | \$ (15,855) | \$ (51,637) | \$ (4,254) |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities | | | | | |
| Depreciation expense | 68,836 | 28,655 | 16,249 | 113,740 | 19,630 |
| Change in assets and liabilities | | | | | |
| Receivables, net | 940 | 2,144 | - | 3,084 | - |
| Internal balances | 852 | 1,073 | 58 | 1,983 | (7,044) |
| Prepaid items | (2,293) | (2,832) | (5,545) | (10,670) | (7,792) |
| Accounts payable | (10,458) | 5,410 | 1,491 | (3,557) | (745) |
| Accrued liabilities | 763 | (331) | (751) | (319) | (59) |
| Deferred revenue | - | (675) | (13,735) | (14,410) | - |
| Net cash provided by (used for) operating activities | <u>\$ 41,040</u> | <u>\$ 15,262</u> | <u>\$ (18,088)</u> | <u>\$ 38,214</u> | <u>\$ (264)</u> |

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
March 31, 2006

| | |
|---------------------------------|--------------------|
| | <u>Agency Fund</u> |
| ASSETS | |
| Cash and investments | \$ <u>3,388</u> |
| LIABILITIES | |
| Due to other governmental units | \$ <u>3,388</u> |

The accompanying notes are an integral part of this statement.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Pentwater (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected seven-member Village Council and is administered by a Village manager appointed by the Village Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Units

Downtown Development Authority. The Village appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt (if any) remains with the Village. The Authority is reported as a special revenue fund.

Pentwater Fire Department. The Village approves all board members and annual budgets for the Fire Department, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Fire Department is reported as a special revenue fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund provides fire protection services for the Village.

The Village reports the following three major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station and collection systems.

The Water Fund operates the Village's water distribution system.

The Marina Fund operates the Village marina.

Additionally, the Village reports the following fund types:

Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Village's investment pool.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following September 15 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Village totaled approximately \$66,300,000 of which approximately \$7,300,000 was captured by the Downtown Development Authority. The ad valorem taxes levied consisted of 8.8021, .2238, .3428, and 1.3020 mills for the Village's general operations, street improvements, friendship center, and improvement projects. These amounts are recognized in the respective General Fund, Local Street Fund, Friendship Center, and Debt Service with captured amounts shown in the DDA.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the Village chose to include only items acquired since April 1, 2004 as allowed by generally accepted accounting principles.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 25-40 |
| Infrastructure | 20-30 |
| Land improvements | 10-20 |
| Equipment | 5-10 |
| Docks | 10 |
| Water system | 15-50 |
| Sewage system | 25-100 |

Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. One-half of all unused accumulated sick leave is paid to employees who resign or retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds and debt service funds. Capital projects funds adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended March 31, 2006, actual expenditures exceeded appropriations for sanitation by \$5,828 and capital outlay by \$7,171 in the General Fund. These overexpenditures were funded with available fund balance.

Fund Deficits

As of March 31, 2006, the Marina Fund had an unrestricted fund deficit of \$48,062. The deficit will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Village has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2006, \$1,855,358 of the Village's bank balance of \$2,255,358 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets

Restrictions are placed on assets by bond ordinance and Village Council action. At March 31, 2006, restricted cash and investments in the enterprise funds are restricted as follows:

Business-type activities

Sewer Fund

| | |
|-----------------------------------|-------------------|
| Bond and Interest Redemption Fund | \$ 35,602 |
| Replacement Fund | 62,839 |
| Bonds reserve fund | <u>64,426</u> |
| | <u>\$ 162,867</u> |

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

| | Balance April 1, 2005 | Additions | Deductions | Balance March 31, 2006 |
|---|-----------------------------|---------------|------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 34,699 | \$ - | \$ - | \$ 34,699 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 41,580 | - | - | 41,580 |
| Buildings and improvements | 598,065 | 7,571 | - | 605,636 |
| Equipment | 1,277,372 | 2,600 | - | 1,279,972 |
| Infrastructure | <u>-</u> | <u>15,609</u> | <u>-</u> | <u>15,609</u> |
| Total capital assets, being depreciated | 1,917,017 | 25,780 | - | 1,942,797 |

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—CAPITAL ASSETS—Continued

| | Balance April 1, 2005 | Additions | Deductions | Balance March 31, 2006 |
|---|-----------------------------|---------------------------|------------------------|------------------------------|
| Governmental activities:—Continued | | | | |
| Less accumulated depreciation: | | | | |
| Land improvements | \$ 4,262 | \$ 2,252 | \$ - | \$ 6,514 |
| Buildings and improvements | 225,948 | 15,777 | - | 241,725 |
| Equipment | 670,698 | 52,258 | - | 722,956 |
| Infrastructure | - | 293 | - | 293 |
| Total accumulated depreciation | <u>900,908</u> | <u>70,580</u> | <u>-</u> | <u>971,488</u> |
| Total capital assets, being depreciated, net | <u>1,016,109</u> | <u>(44,800)</u> | <u>-</u> | <u>971,309</u> |
| Capital assets, net | <u><u>\$ 1,050,808</u></u> | <u><u>\$ (44,800)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,006,008</u></u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 254,190 | \$ - | \$ - | \$ 254,190 |
| Construction in progress | <u>3,000</u> | <u>-</u> | <u>3,000</u> | <u>-</u> |
| Total capital assets, not being depreciated | 257,190 | - | 3,000 | 254,190 |
| Capital assets, being depreciated: | | | | |
| Plants and systems | 3,381,506 | 27,315 | - | 3,408,821 |
| Buildings and improvements | 474,626 | 147,885 | - | 622,511 |
| Equipment | 242,857 | - | - | 242,857 |
| Docks | <u>181,004</u> | <u>-</u> | <u>-</u> | <u>181,004</u> |
| Total capital assets, being depreciated | 4,279,993 | 175,200 | - | 4,455,193 |
| Less accumulated depreciation: | | | | |
| Plants and systems | 1,655,876 | 78,649 | - | 1,734,525 |
| Building and improvements | 274,531 | 21,813 | - | 296,344 |
| Equipment | 226,629 | 3,966 | - | 230,595 |
| Docks | <u>95,359</u> | <u>9,312</u> | <u>-</u> | <u>104,671</u> |
| Total accumulated depreciation | <u>2,252,395</u> | <u>113,740</u> | <u>-</u> | <u>2,366,135</u> |
| Total capital assets, being depreciated, net | <u>2,027,598</u> | <u>61,460</u> | <u>-</u> | <u>2,089,058</u> |
| Capital assets, net | <u><u>\$ 2,284,788</u></u> | <u><u>\$ 61,460</u></u> | <u><u>\$ 3,000</u></u> | <u><u>\$ 2,343,248</u></u> |

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2006

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

| | |
|--|------------------|
| General government | \$ 5,530 |
| Public safety | 35,025 |
| Public works | 7,053 |
| Community and economic development | 280 |
| Culture and recreation | 3,062 |
| Internal Service Fund depreciation is charged to the various programs based on their usage of the assets | 19,630 |
| | <u>\$ 70,580</u> |

Business-type activities:

| | |
|--------|-------------------|
| Sewer | \$ 68,836 |
| Water | 28,655 |
| Marina | 16,249 |
| | <u>\$ 113,740</u> |

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of March 31, 2006 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|--------------------------|------------------|
| Other governmental funds | Other governmental funds | \$ 3,204 |
| Equipment fund | General Fund | 423 |
| Equipment fund | Other governmental funds | 4,638 |
| Equipment fund | Sewer Fund | 852 |
| Equipment fund | Water Fund | 1,073 |
| Equipment fund | Marina Fund | 58 |
| | | <u>\$ 10,248</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The General Fund has advanced \$49,789 to the Marina Fund to fund capital improvements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|--------------------|-------------------|
| Receivables | \$ - | \$ 3,115 |
| Property taxes | 8,189 | 135,707 |
| Boat slips | <u>-</u> | <u>41,775</u> |
| Total deferred revenue for governmental funds | <u>\$ 8,189</u> | <u>\$ 180,597</u> |

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2006.

| | Balance April 1, 2005 | Additions | Reductions | Balance March 31, 2006 | Due within one year |
|---|-----------------------------|-----------------|------------------|------------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 820,000 | \$ - | \$ 35,000 | \$ 785,000 | \$ 40,000 |
| Compensated absences | <u>30,778</u> | <u>6,492</u> | <u>15,866</u> | <u>21,404</u> | <u>5,442</u> |
| Governmental activity long-term liabilities | <u>\$ 850,778</u> | <u>\$ 6,492</u> | <u>\$ 50,866</u> | <u>\$ 806,404</u> | <u>\$ 45,442</u> |
| Business-type activities: | | | | | |
| Revenue bonds | \$ 455,000 | \$ - | \$ 25,000 | \$ 430,000 | \$ 25,000 |
| Compensated absences | <u>1,939</u> | <u>6,664</u> | <u>4,656</u> | <u>3,947</u> | <u>987</u> |
| Business-type activity long-term liabilities | <u>\$ 456,939</u> | <u>\$ 6,664</u> | <u>\$ 29,656</u> | <u>\$ 433,947</u> | <u>\$ 25,987</u> |

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

General obligation bonds:

\$990,000 General Obligation bonds of 1996
due in annual installments of \$40,000
to \$100,000 through April 2017; plus
interest at rates varying from 6% to
6.05%

\$ 785,000

Compensated absences

21,404

\$ 806,404

Business-type activities:

Revenue bonds:

\$750,000 Sewage Disposal Junior Lien Revenue
bonds of 1986 due in annual
installments of \$25,000 through April
2025; plus interest at 6.38%

\$ 430,000

Compensated absences

3,947

\$ 433,947

The general obligation bonds are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at March 31, 2006.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2006 follows:

| Year ending <u>December 31,</u> | <u>Governmental activities</u> | | <u>Business-type activities</u> | |
|------------------------------------|--------------------------------|-------------------|---------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 40,000 | \$ 46,033 | \$ 25,000 | \$ 27,413 |
| 2008 | 40,000 | 43,633 | 25,000 | 25,819 |
| 2009 | 50,000 | 40,933 | 25,000 | 24,225 |
| 2010 | 50,000 | 37,933 | 25,000 | 22,631 |
| 2011 | 55,000 | 34,783 | 25,000 | 21,038 |
| 2012-2016 | 365,000 | 113,893 | 125,000 | 81,282 |
| 2017-2021 | 185,000 | 11,646 | 120,000 | 41,438 |
| 2022-2025 | - | - | 60,000 | 9,563 |
| | <u>\$ 785,000</u> | <u>\$ 328,854</u> | <u>\$ 430,000</u> | <u>\$ 253,409</u> |

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE H—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Post-Retirement Health Care

The Village has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were four retired employees receiving benefits. The Village finances the Plan on a pay-as-you-go basis. For the year ended March 31, 2006, the Village's post-retirement health care cost under the Plan was approximately \$19,000.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2006

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Pentwater
 327 S. Hancock Street
 Pentwater, MI 49449

Funding Policy. Village employees contribute 3 percent of their earnings to the Plan. The Village is required to contribute at an actuarially-determined rate depending upon position from 5.57 to 5.97 percent of covered payroll.

Annual Pension Cost. For the year ended March 31, 2006, the Village's annual pension cost was approximately \$20,000 which the Village contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| Year ended | Approximate Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|-------------------------------------|---------------------------|
| 03/31/04 | \$ 5,300 | 100 % | \$ - |
| 03/31/05 | 20,800 | 100 | - |
| 03/31/06 | 20,200 | 100 | - |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

| Actuarial valuation date | Actuarial value of assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|--------------------------------|---------------------------------|---|---------------------------|-----------------|--------------------|---|
| 12/31/02 | \$ 863,278 | \$ 895,546 | \$ 32,268 | 96 % | \$ 352,324 | 9 % |
| 12/31/03 | 905,151 | 958,795 | 53,644 | 94 | 341,371 | 16 |
| 12/31/04 | 951,218 | 1,045,535 | 94,317 | 91 | 349,322 | 27 |

NOTE J—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 10 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Pentwater
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

| | Budgeted amounts | | | Variance with final budget - positive (negative) |
|------------------------------------|------------------|-------------|------------|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Property taxes | \$ 587,106 | \$ 585,046 | \$ 585,081 | \$ 35 |
| Licenses and permits | 9,700 | 9,700 | 10,651 | 951 |
| Intergovernmental revenues - state | 77,700 | 77,700 | 79,773 | 2,073 |
| Charges for services | 85,551 | 85,551 | 86,857 | 1,306 |
| Fines and forfeitures | 1,000 | 1,000 | 3,520 | 2,520 |
| Investment earnings | 9,000 | 9,000 | 21,649 | 12,649 |
| Other | 15,000 | 15,000 | 16,394 | 1,394 |
| Total revenues | 785,057 | 782,997 | 803,925 | 20,928 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Council | 56,706 | 73,006 | 63,322 | 9,684 |
| President | 5,450 | 5,450 | 4,363 | 1,087 |
| Manager | 29,803 | 29,803 | 28,953 | 850 |
| Clerk | 94,229 | 98,479 | 91,982 | 6,497 |
| Treasurer | 3,095 | 4,295 | 3,366 | 929 |
| Hall | 12,005 | 12,005 | 11,232 | 773 |
| Elections | 2,900 | 2,900 | 1,410 | 1,490 |
| Public safety | | | | |
| Police department | 274,456 | 274,456 | 215,886 | 58,570 |
| Public works | | | | |
| DPW | 115,277 | 140,748 | 126,344 | 14,404 |
| Street lighting | 26,125 | 26,125 | 25,744 | 381 |
| Sanitation | 78,000 | 78,000 | 83,828 | (5,828) |
| Community and economic development | | | | |
| Planning commission | 10,600 | 10,600 | 3,612 | 6,988 |
| Zoning | 14,155 | 17,865 | 15,119 | 2,746 |
| Culture and recreation | | | | |
| Recreation program | 9,730 | 9,730 | 8,581 | 1,149 |
| Parks | 56,432 | 71,532 | 64,829 | 6,703 |
| Capital outlay | 3,000 | 3,000 | 10,171 | (7,171) |
| Total expenditures | 791,963 | 857,994 | 758,742 | 99,252 |
| Net change in fund balance | \$ (6,906) | \$ (74,997) | 45,183 | \$ 120,180 |
| Fund balance at April 1, 2005 | | | 648,793 | |
| Fund balance at March 31, 2006 | | | \$ 693,976 | |

Village of Pentwater
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Fire Fund
For the year ended March 31, 2006

| | Budgeted amounts | | | Variance with final budget - positive (negative) |
|--------------------------------|------------------|------------|------------|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Charges for services | \$ 137,801 | \$ 137,801 | \$ 137,526 | \$ (275) |
| Investment earnings | 1,000 | 3,800 | 5,341 | 1,541 |
| Other | - | 1,000 | 1,743 | 743 |
| Total revenues | 138,801 | 142,601 | 144,610 | 2,009 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | 118,801 | 117,301 | 108,713 | 8,588 |
| Net change in fund balance | \$ 20,000 | \$ 25,300 | 35,897 | \$ 10,597 |
| Fund balance at April 1, 2005 | | | 74,588 | |
| Fund balance at March 31, 2006 | | | \$ 110,485 | |

OTHER SUPPLEMENTAL INFORMATION

Village of Pentwater
COMBINING BALANCE SHEET
Other Governmental Funds
March 31, 2006

| | | Special Revenue | | | | | Debt Service |
|--------------------------------------|--------------------------------------|-------------------|------------------|--------------------------------------|----------------------|------------------|------------------|
| | Total other governmental funds | Major Street | Local Street | Downtown Development Authority | Friendship Center | Memorial Fund | Debt Service |
| ASSETS | | | | | | | |
| Cash and investments | \$ 392,220 | \$ 209,955 | \$ 43,304 | \$ 43,721 | \$ 28,312 | \$ 1,364 | \$ 65,564 |
| Due from other governmental units | 20,615 | 10,824 | 7,590 | - | 756 | - | 1,445 |
| Due from other funds | 3,204 | - | 3,204 | - | - | - | - |
| Prepaid items | 2,374 | 711 | 1,169 | - | 494 | - | - |
| Total assets | <u>\$ 418,413</u> | <u>\$ 221,490</u> | <u>\$ 55,267</u> | <u>\$ 43,721</u> | <u>\$ 29,562</u> | <u>\$ 1,364</u> | <u>\$ 67,009</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 416 | \$ 123 | \$ 185 | \$ 71 | \$ 37 | \$ - | \$ - |
| Accrued liabilities | 11 | - | - | - | 11 | - | - |
| Due to other funds | 7,843 | 5,551 | 2,292 | - | - | - | - |
| Customer deposits | 175 | - | - | - | 175 | - | - |
| Deferred revenue | 105 | - | - | - | 105 | - | - |
| Total liabilities | 8,550 | 5,674 | 2,477 | 71 | 328 | - | - |
| Fund balances | | | | | | | |
| Reserved for: | | | | | | | |
| Prepaid items | 2,374 | 711 | 1,169 | - | 494 | - | - |
| Debt service | 67,009 | - | - | - | - | - | 67,009 |
| Unreserved: | | | | | | | |
| Designated for improvements | 1,364 | - | - | - | - | 1,364 | - |
| Undesignated | 339,116 | 215,105 | 51,621 | 43,650 | 28,740 | - | - |
| Total fund balances | 409,863 | 215,816 | 52,790 | 43,650 | 29,234 | 1,364 | 67,009 |
| Total liabilities and fund balances | <u>\$ 418,413</u> | <u>\$ 221,490</u> | <u>\$ 55,267</u> | <u>\$ 43,721</u> | <u>\$ 29,562</u> | <u>\$ 1,364</u> | <u>\$ 67,009</u> |

Village of Pentwater
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended March 31, 2006

| | Total other governmental funds | Special Revenue | | | | | Debt Service |
|------------------------------------|--------------------------------------|-------------------|------------------|--------------------------------------|----------------------|------------------|------------------|
| | | Major Street | Local Street | Downtown Development Authority | Friendship Center | Memorial Fund | |
| REVENUES | | | | | | | |
| Property taxes | \$ 138,081 | \$ - | \$ 14,873 | \$ 15,371 | \$ 22,768 | \$ - | \$ 85,069 |
| Intergovernmental revenues - state | 118,357 | 64,849 | 43,508 | 10,000 | - | - | - |
| Charges for services | 6,762 | 2,264 | - | - | 4,498 | - | - |
| Investment earnings | 10,383 | 5,422 | 1,508 | 1,164 | 960 | 32 | 1,297 |
| Other | 5,768 | 85 | 5,204 | - | 19 | 460 | - |
| Total revenues | 279,351 | 72,620 | 65,093 | 26,535 | 28,245 | 492 | 86,366 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| Public works | 116,424 | 54,718 | 61,706 | - | - | - | - |
| Other governmental functions | 45,990 | - | - | 21,567 | 24,181 | 242 | - |
| Debt service | | | | | | | |
| Principal | 35,000 | - | - | - | - | - | 35,000 |
| Interest and fees | 48,783 | - | - | - | - | - | 48,783 |
| Capital outlay | 15,609 | - | 15,609 | - | - | - | - |
| Total expenditures | 261,806 | 54,718 | 77,315 | 21,567 | 24,181 | 242 | 83,783 |
| Net change in fund balances | 17,545 | 17,902 | (12,222) | 4,968 | 4,064 | 250 | 2,583 |
| Fund balances at April 1, 2005 | 392,318 | 197,914 | 65,012 | 38,682 | 25,170 | 1,114 | 64,426 |
| Fund balances at March 31, 2006 | <u>\$ 409,863</u> | <u>\$ 215,816</u> | <u>\$ 52,790</u> | <u>\$ 43,650</u> | <u>\$ 29,234</u> | <u>\$ 1,364</u> | <u>\$ 67,009</u> |

OTHER DOCUMENTS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

June 22, 2006

Village Manager and
Members of the Village Council
Village of Pentwater
Pentwater, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, Michigan, as of and for the year ended March 31, 2006 which collectively comprise the Village of Pentwater, Michigan's basic financial statements and have issued our report thereon dated June 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pentwater, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Pentwater, Michigan's, ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is that disbursements were not being made from vendor invoices.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

BRICKLEY DELONG

Village Manager and
Members of the Village Council
June 22, 2006
Page 2

Compliance

As part of obtaining reasonable assurance about whether the Village of Pentwater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 22, 2006

Village Council
Village of Pentwater
Pentwater, Michigan

In planning and performing our audit of the financial statements of the Village of Pentwater for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village of Pentwater's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

REPORTABLE CONDITION

Accounts Payable

Recommendation 1: Disbursements should be made from vendor invoices.

During our audit, we noted that two checks were prepared for the same item because a check was prepared for the invoice and for the shipping slip.

Only paying off vendor invoices would reduce the possibility of duplicate payment of such invoices.